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GOVERNOR RELEASES PROPOSED 2004-05 BUDGET

On January 9, 2004, Governor Arnold Schwarzenegger released his Proposed 2004-05 Budget. The following update provides a "quick and dirty" summary of key provisions of the Governor's Budget. As additional details become known, the California Budget Project (CBP) will update this document. The CBP will also prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for corrections and additions to this analysis as additional information becomes available. Budget documents are available on the Department of Finance's website at www.dof.ca.gov.

HOW THE BUDGET IS BALANCED

In order to bring the budget into balance, the budget includes "solutions" totaling \$754 million in 2002-03, \$2.6 billion in 2003-04, and \$14.4 billion in 2004-05, including:

- \$5.9 billion in spending reductions;
- \$1.1 billion in fund shifts;
- \$947 million in savings from suspending Proposition 42, which allocates certain sales tax revenues to transportation;
- \$2.9 billion in savings from "re-basing" growth in the Proposition 98 school spending guarantee;
- Using \$3.0 billion of the proceeds of the Deficit Recovery Bonds to offset 2004-05 operating expenses;
- \$1.3 billion in savings for debt service on the Deficit Recovery Bonds;
- \$1.2 billion in transfers and other revenues, including fee increases;
- \$249 million in loans and borrowing; and
- \$950 million in savings from a proposed "pension reform package," which includes the issuance of pension obligation bonds.

The budget would reimburse local governments for \$4.1 billion in revenues lost as a result of the Governor's rescission of the Vehicle License Fee (VLF) increase in 2004-05. The budget assumes that local governments would receive \$2.5 billion in reimbursements for VLF revenues lost in 2003-04. An additional \$1.3 billion would be treated as a loan and repaid in 2006-07. The budget proposes, however, to shift \$1.3 billion in property tax revenues from local governments to schools. This would reduce the state's school funding obligation by an equal amount.

The Proposed 2004-05 Budget spends \$79.1 billion from the state's General Fund and assumes revenues of \$76.4 billion. For accounting purposes, the Budget shows \$3.0 billion of the \$79.1 billion in 2004-05 spending as occurring in 2003-04 out of the proceeds of the Deficit Recovery Bonds. This method of accounting for the use of bond proceeds allows the budget to show an

operating surplus in 2004-05. In fact, budgeted expenditures exceed anticipated revenues by \$2.7 billion.

The budget assumes the sale of Deficit Recovery Bonds resulting in net proceeds of \$12.3 billion. Bond funds would be used to pay for the \$9.242 billion 2002-03 shortfall and \$1.881 billion in employee retirement contributions in lieu of issuing the pension obligation bonds included as part of the 2003-04 budget package. The budget also proposes to use a portion of the bond proceeds to pay for 2003-04 and 2004-05 operating expenses, including:

- \$188 million to repay loans from special funds to the state's General Fund;
- \$325 million to make up for the 2004-05 revenue loss attributable to the expansion of net operating loss deductions authorized as part of the 2002-03 budget package;
- \$100 million in 2004-05 general obligation debt service costs;
- \$209 million in 2004-05 employee compensation costs; and
- \$300 million in contributions to the state's reserve in 2004-05.

As proposed, the budget includes a \$635 million reserve in 2004-05.

TAX AND REVENUE PROPOSALS

The budget does not propose any increases in state taxes. It does include \$240 million in fee increases in 2003-04 and 2004-05, including higher fees for state parks, students enrolled in higher education, and families participating in state-supported child care programs. The budget assumes a \$500 million increase in state revenues from tribal gaming activities.

The budget assumes that revenues will be \$1.9 billion above the levels forecast in November by the Legislative Analyst's Office (LAO) in 2002-03, 2003-04, and 2004-05 combined. Nearly all (\$1.8 billion) of the difference is attributable to the Administration's assumption of higher revenues from sources other than the state's three major taxes, the personal income, sales, and corporation taxes.

CHILD CARE

The Proposed Budget contains a series of changes to state child care programs that would result in 2004-05 savings of \$41.8 million in CalWORKs Stage 1 child care; \$53.8 million in Stage 2; \$32.5 million in Stage 3; \$17.1 million in General Child Care programs; \$16.3 million in the Alternative Payment Program; and \$3.3 million in the Latchkey program. The Governor proposes to:

- Eliminate Stage 3 child care for former CalWORKs participants and limit all former CalWORKs families to three years of subsidized child care after cash aid ends. Stage 3 families that exceed three years of transitional care in 2004-05 would be granted an extension of one additional year to obtain other child care if they are not able to enroll in General Child Care programs. Currently, families may receive Stage 2 child care for up to two years after leaving cash aid and may move to Stage 3 child care without a time limit once they have reached their two-year limit in Stage 2.
- Reduce the threshold at which families begin to pay child care fees from 50 percent of

the state median income (SMI), as adjusted for family size, to approximately 40 percent of SMI. Fees would not exceed 10 percent of income, as recommended in federal guidelines.

- Establish a three-tiered income eligibility structure for General Child Care programs to reflect the high cost of housing in certain counties. Savings would accrue by reducing the maximum eligible income in lower-cost counties.
- Provide child care services for 11 and 12 year olds only when before- and after-school programs are not available.
- Implement a sliding scale to reimburse child care providers. Reimbursement rate limits would begin at the 40th percentile of the regional market for license-exempt providers with no training and increase up to the 85th percentile of the market for accredited, licensed providers that serve unsubsidized families and that demonstrate the integration of early childhood development principles.
- Provide \$15.5 million for enrollment growth and \$22 million for a cost-of-living (COLA) for child care programs administered by the California Department of Education.

MEDI-CAL

The Governor proposes to:

- Reduce Medi-Cal provider rates by 10 percent, as included in his November mid-year spending proposal, for General Fund savings of \$160.9 million in 2003-04 and \$462.2 million in 2004-05. This is in addition to the 5 percent provider rate reduction included as part of the 2003-04 Budget, which was recently blocked by a federal court on the basis that it would impact beneficiaries' equal access to quality medical services.
- Eliminate the Wage Adjustment Rate Program (WARP), as included in his November mid-year spending proposal, for General Fund savings of \$46 million in 2003-04. This program provides supplemental payments to certain long-term care facilities for salaries, wages, or benefits for caregivers.
- Develop and implement proposals to reform the Medi-Cal program. Proposals may include: aligning eligibility standards with other public assistance programs; offering different benefit packages and requiring different premium amounts for benefits; requiring co-payments from beneficiaries for various services; conforming the basic Medi-Cal optional benefit package to that of private health plans; and expanding managed care, including encouraging enrollment of elderly, blind, and disabled persons into managed care plans. The Proposed Budget does not include Medi-Cal savings in 2004-05 due to the time needed to develop and implement the proposals. However, the Administration anticipates possible General Fund savings of \$400 million in 2005-06.
- Implement changes to Adult Day Health Care (ADHC) centers, including a one-year moratorium on new ADHC centers and a moratorium on certification for increased capacity of existing ADHC centers for General Fund savings of \$12.7 million in 2004-05.
- Delay Medi-Cal check writes by one week. This would result in one-time General Fund savings of \$143.5 million from delayed payments in 2004-05. The Administration anticipates some level of ongoing savings from reduced fraud.
- Implement a plan to control county costs for Medi-Cal eligibility determinations, including productivity standards and restricting county wage increases to specified COLAs. This would result in General Fund savings of \$10 million in 2004-05 and \$20

million when fully implemented.

- Reduce the interim rate paid to acute care hospitals by 10 percent effective December 1, 2003. Hospital costs would continue to be “settled up” at the end of the fiscal year, based on audited hospital cost reports. The proposal would not reduce total Medi-Cal payments for hospitals inpatient services, but result in General Fund cash flow savings of \$18.1 million in 2003-04 and \$31 million in 2004-05.
- Revise the rate methodology for federally qualified health centers and rural health clinics, for General Fund savings of \$3.8 million in 2003-04 and \$32.2 million in 2004-05.

HEALTHY FAMILIES PROGRAM

The Governor proposes to:

- Implement a two-tiered benefit package for children with family incomes between 201 percent and 250 percent of the federal poverty level (FPL). The proposal would offer a basic benefit package, excluding dental and vision coverage, at current premium levels, and a comprehensive package with higher monthly premiums. The proposal would not be implemented until 2005-06.

OTHER HEALTH POLICY CHANGES

The Governor proposes to:

- Implement co-payments in the Genetically Handicapped Persons Program beginning in 2004-05, for General Fund savings of \$576,000.
- Reduce Proposition 99 funding for various health programs, including \$6.1 million for the Breast Cancer Early Detection Program and \$4.2 million for the California Healthcare for Indigents Program.

CalWORKs

The Proposed Budget contains several significant policy changes to CalWORKs, which provides time-limited cash assistance to low-income families with children and helps participants find jobs and overcome barriers to employment. The Governor proposes to:

- Require CalWORKs participants to work at least 20 hours per week in “core” work activities within 60 days of receiving cash assistance, for General Fund savings of \$99.8 million in 2004-05. Core work activities would include employment, on-the-job training, and other activities that would lead to a job. The Governor states that this change “will lead to employment sooner and minimize reliance on public assistance.” Participants would be required to participate in other approved activities as necessary to meet the state’s 32-hour-per-week work participation requirement.
- Reduce child-only cash grants by 25 percent if sanctioned CalWORKs participants fail to meet work participation requirements within one month of being sanctioned, for General Fund savings of \$30.2 million in 2004-05.
- Reduce child-only cash grants by 25 percent for families that have reached the state’s 60-month time limit and in which the adult does not work, for General Fund savings of

\$32.9 million in 2004-05. Currently, families that reach the time limit only lose the adult's portion of the grant if they meet eligibility guidelines to receive state-funded "safety-net" cash aid for the children.

- Eliminate funding for county services to at-risk youth and juvenile offenders as of October 1, 2004, for savings of \$134.3 million in 2004-05 and \$201.4 million annually thereafter. These services have historically been funded with state and federal welfare dollars.
- Decrease cash assistance grant levels by 5 percent starting April 1, 2004, for Temporary Assistance for Need Families (TANF) block grant savings of \$45.3 million in 2003-04 and \$181.2 million in 2004-05. This change would reduce the maximum monthly grant for a family of three from \$704 to \$669 in high-cost counties and from \$671 to \$637 in low-cost counties. Suspend the July 2004 COLA for cash assistance, for General Fund savings of \$98.5 million in 2004-05. In addition, the Governor has proposed to eliminate the statutory COLA that became effective October 1, 2003, as a result of the reduction in the VLF rate. The Governor estimates that eliminating the October 2003 COLA would result in savings of \$95 million in 2003-04 and \$127 million in 2004-05.
- Provide augmentations of \$191.9 million for CalWORKs employment services in each of 2003-04 and 2004-05.
- Include a \$158.4 million TANF reserve for unanticipated needs.

ENROLLMENT CAPS IN HEALTH AND SOCIAL SERVICE PROGRAMS

The Proposed Budget includes most of the Governor's November 2003 proposals to implement enrollment caps in several health and social service programs, for General Fund savings of \$1.2 million in 2003-04 and \$60.5 million in 2004-05. Programs facing enrollment caps include the Healthy Families Program, Medi-Cal services for immigrants, and the AIDS Drug Assistance Program. General Fund savings are smaller than previously estimated, partly because the Governor rescinded his earlier proposal to cap enrollment in Regional Centers, which provide services to people with developmental disabilities.

PROGRAMS FOR IMMIGRANTS

The Proposed Budget includes a proposal to consolidate funding for four programs that serve documented immigrants into a block grant to be provided to counties, for General Fund savings of \$6.6 million. These programs include CalWORKs for recently documented immigrants, the California Food Assistance Program, the Cash Assistance Program for Immigrants, and the Healthy Families Program for documented immigrants. Counties would use block grant funds to provide "basic safety net services."

OTHER SOCIAL SERVICE PROGRAMS

The Governor proposes to:

- Transfer \$41.1 million in TANF funds to the In-Home Supportive Services program in 2003-04 and \$119.5 million in TANF funds to the Child Welfare Services and Foster Care programs and the Department of Developmental Services in 2004-05.
- Eliminate the new Transitional Food Stamp Benefits Program for former CalWORKs

recipients, for savings of \$1.6 million (\$1.1 million General Fund) in 2003-04 and \$5.2 million (\$3.1 million General Fund) in 2004-05. This program would ease families' transition from welfare to work and bring an estimated \$165.5 million in federal food stamp benefits to 66,000 low-income California households.

- Rescind changes made to food stamp vehicle and application rules enacted by AB 231 of 2003, for savings of \$404,000 (\$186,000 General Fund) in 2003-04 and \$772,000 (\$444,000 General Fund) in 2004-05. The Governor's proposal would result in an estimated loss of \$37 million in federal food stamp benefits to 15,000 low-income California households.
- Suspend the state cost-of-living adjustment (COLA) of 2.8 percent and withhold the federal COLA of 1.8 percent for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants, both scheduled for January 2005. This would result in General Fund savings of \$134.7 million in 2004-05 and \$269.4 million annually thereafter. Under current law, the monthly grant would increase to \$812 for an individual and \$1,438 for couples in January 2005. The Governor's proposal would maintain monthly grant levels at \$790 for an individual and \$1,399 for couples.
- Reduce the state's share of costs for In-Home Supportive Services (IHSS) provider wages and benefits to the state minimum wage, for General Fund savings of \$98 million in 2004-05 and \$130.7 million annually thereafter.
- Eliminate funding for certain IHSS collective bargaining-related activities and make optional the requirement for counties to establish an IHSS employer of record, for General Fund savings of \$987,000 in 2004-05 and \$1.3 million annually thereafter.
- Eliminate domestic and related IHSS services for recipients who live with able-bodied family members, when the services are provided in common with other household members, starting October 1, 2004. This proposal would eliminate services to 90,350 recipients when fully implemented, and would result in General Fund savings of \$26.3 million in 2004-05 and \$35.1 million annually thereafter.
- Eliminate the "residual" IHSS program, for General Fund savings of \$88.8 million in 2003-04 and \$365.8 million in 2004-05. The "residual" IHSS program consists of cases that are not eligible for federal funding, or approximately 74,000 cases representing about 23 percent of the total IHSS caseload. This was included as part of the Governor's mid-year spending proposals released in November 2003.
- Implement "reforms" in the Foster Care program, for savings of \$20 million in 2004-05. The specifics of the proposals will be included in the 2004 May Revision.
- Require counties to continue paying 25 percent of the federal penalties associated with the delay in implementing a single, statewide automated child support collection system in 2004-05 and future years. This would result in General Fund savings of \$55 million in 2004-05.
- Eliminate the counties' share of child support collections for additional General Fund revenues of \$39.4 million.
- Establish a block grant for various aging programs and reduce General Fund support for these programs by \$1.7 million.

DEPARTMENT OF MENTAL HEALTH

The Governor proposes to:

- Implement various policies affecting state hospitals and Sexually Violent Predators, resulting in General Fund savings of \$17.2 million in 2004-05 and \$25.6 million in 2005-06.
- Adjust the maximum rates paid for services in the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program, for General Fund savings of \$40 million.
- Transfer responsibility for the Children's System of Care program to the counties, for General Fund savings of \$20 million.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor proposes to:

- Implement cost-containment measures for Regional Centers, including implementing co-payments for consumers who can afford to pay and standardizing the purchase of services. These measures would result in General Fund savings of \$100 million.
- Repeal the November mid-year proposal to eliminate certain Regional Center services.

K-12 EDUCATION

The Governor's Budget:

- Establishes a total 2004-05 Proposition 98 funding level of \$46.7 billion for K-14 education programs, which represents a 1.7 percent increase over the 2003-04 level of \$45.9 billion. The state General Fund share of 2004-05 Proposition 98 funding is \$29.7 billion, 1.4 percent less than the 2003-04 General Fund share of \$30.2 billion. The proposed 2004-05 Proposition 98 funding level is \$2 billion below the current estimate of the Proposition 98 guarantee for 2004-05. The Administration intends to seek legislation that would add this amount to the maintenance factor that is owed to schools in future years.
- Reduces General Fund support for K-12 Proposition 98 funding by 2.2 percent from 2003-04. The Budget reflects an increase of 1.0 percent in total Proposition 98 funding due to a projected 7.7 percent increase in local property tax revenues.
- Uses growth in local property tax revenues to fund "normal" funding adjustments for K - 12 enrollment growth and COLAs.
- Proposes an increase of 1.1 percent in K-12 Proposition 98 funding. This funding level will support K-12 Proposition 98 per pupil expenditures of \$6,945 in 2004-05, up from \$6,940 in 2003-04. The Administration projects total per pupil spending from all sources at \$9,614 in 2004-05, up from \$9,398 in 2003-04.
- Defers \$1.2 billion of spending from 2004-05 into 2005-06.
- Reflects an overall increase in \$2.8 billion in revenue limit funding (the general purpose funds school districts receive from the state). The Proposed Budget also includes \$294.4 million in additional funds in 2003-04 to reflect revised apportionment funding levels.
- Proposes to shift \$2 billion from 22 categorical programs to district and county revenue

limit funding. Districts may continue to fund the existing categorical programs or may use the funds for other purposes. However, to ensure increased accountability for the funds, the Administration proposes that all districts develop a plan to fully restore their state-mandated “rainy day” reserve by 2005-06. The Governor’s Budget also proposes to reduce the number of state-funded categorical programs from 88 to 49.

- Proposes almost \$110 million for school district revenue limit equalization, to reduce the disparity in the amount of state general purpose funding received by school districts.
- Funds statutory enrollment growth for school districts (\$264.8 million) and county office of education revenue limit apportionments (\$15 million).
- Fully funds an increase in the CalPERS school employer contribution rate (approximately \$106 million), an increase in local education unemployment insurance reimbursements (approximately \$136 million), and a COLA increase for district and county office of education revenue limit apportionments (approximately \$554.8 million). The Governor’s Budget provides an additional \$89 million for statutory growth adjustments and \$115 million for COLA adjustments for categorical programs, including Regional Occupational Centers and Programs and Adult Education.
- Fully funds the State Deferred Maintenance Program, for a total cost of \$250.3 million.
- Provides \$9.3 million in additional General Fund monies to provide adjustments under the special education formula, including a \$70 million (1.84 percent) COLA and \$37.4 million for growth.

CALIFORNIA COMMUNITY COLLEGES

The Governor’s Budget:

- Provides \$4.7 billion in 2004-05 Proposition 98 spending for the California Community Colleges. This funding level represents a 7.3 percent increase from the 2003-04 Proposition 98 funding level of \$4.4 billion.
- Increases fees from the current \$18 per unit to \$26 per unit in 2004-05; students who already possess a Bachelor’s or higher degree would pay \$50 per unit. As a result of these fee hikes, fee revenue is projected to increase by approximately \$91 million, replacing General Fund support of the same amount.
- Proposes 3 percent growth in apportionments (\$125.1 million) to fund an additional 33,000 full-time equivalent students (FTES), both credit and non-credit. The Administration argues that this enrollment growth will be sufficient to allow community colleges to serve the additional lower division students who may be diverted from the University of California (UC) and California State University (CSU) systems to the community college system.
- Proposes additional allocations to community college districts currently funded below the 90th percentile of FTES funding system-wide, which the Administration suggests will serve to reduce disparities among districts.
- Proposes to consolidate several categorical programs, eliminate two programs, and use the approximately \$4 million in savings to fund additional growth in non-credit FTES.

HIGHER EDUCATION

The Governor's Budget:

- Proposes total funding in 2004-05 of \$4.5 billion (\$2.7 billion General Fund) for the UC system, a 0.3 percent decrease from the 2003-04 total funding level and a 6.9 percent decrease in General Fund support.
- Proposes total funding in 2004-05 of \$3.6 billion (\$2.4 billion General Fund) for the CSU system, a 2.4 percent decrease from the 2003-04 total funding level and an 8.1 percent decrease in General Fund support.
- Proposes no funding for enrollment growth in either the UC or CSU systems in 2004-05, and a 10 percent reduction in the number of freshmen enrolled in both systems, a decrease of approximately 3,200 at UC and 3,800 at CSU. The Administration suggests that lower division students could attend community colleges and then transfer for upper division courses to the UC or CSU systems. The Administration encourages UC and CSU to establish systems of "dual enrollment" and proposes to provide UC and CSU with \$500 per student to provide counseling to co-enrolled students. The Budget proposes to augment 2004-05 spending by \$1.6 million for UC and \$1.9 million for CSU for this purpose.
- Proposes to increase in-state undergraduate student fees by 10 percent, increase graduate student fees by 40 percent, and increase the surcharge paid by out-of-state students by 20 percent in both the UC and CSU systems in 2004-05. Fee increases are projected to provide approximately \$196 million in revenue to UC and \$101.5 million to CSU, replacing equivalent amounts of General Fund support. The Administration also proposes a new long-term fee policy for the UC and CSU systems that would link increases in undergraduate student fees to increases in state per capita personal income, and allow for increases of up to 10 percent annually to provide the state some flexibility. Graduate student fees at UC and CSU would be increased at a rate higher than the growth in per capita personal income, until the graduate fee in both systems is 50 percent higher than the undergraduate fee.
- Eliminates General Fund support for outreach activities by both the UC and CSU systems (\$33.3 million at UC and \$52 million at CSU).
- Increases the student-to-faculty ratio by approximately 5 percent in both the UC and CSU systems, for savings of \$35.2 million (UC) and \$53.5 million (CSU).
- Provides \$10 million in funding for the new UC Merced campus, with the goal of making the campus operational by 2005-06.
- Maintains proposed mid-year reductions to the CSU budget, including an \$11.3 million unallocated reduction to CSU's General Fund allocation, but restores a \$69.5 million unallocated one-time reduction contained in the 2003-04 Budget. Provides an additional \$155 million in General Fund support to CSU for increased employer contributions to the Public Employees' Retirement System, beginning in the current year.
- Decouples Cal Grant award levels from the tuition levels at UC and CSU. Absent this change, grants would increase with the proposed increase in fees. The Administration estimates that this change would save approximately \$23.6 million in 2004-05. The Governor's Budget would also reduce the income eligibility level for Cal Grant recipients by 10 percent for savings of \$11.2 million, and reduce the maximum Cal Grant

award for students at private colleges and universities for General Fund savings of \$32.7 million.

- Eliminates the General Fund subsidy for UC and CSU students who take courses in excess of 110 percent of the total units required to earn their degree.
- Reduces General Fund support for UC professional school students, including Hastings College of Law, by 25 percent, with the exception of some high demand fields such as nursing.

HOUSING

The Governor:

- Proposes to reduce General Fund monies for homeless assistance (the Emergency Housing Assistance Program) under the Department of Housing and Community Development (HCD) by \$1.3 million in 2004-05.
- Recognizes that for 2002-03, 2003-04, and 2004-05, General Fund spending for HCD is below population and inflation growth.

TRANSPORTATION

The Governor:

- Proposes to suspend the Proposition 42 transfer from the General Fund to the Traffic Congestion Relief Program (TCRP), for a total savings of \$1.1 billion (\$947.2 million from suspending the transfer to state funds and \$179.5 million from suspending the allocation to local governments). Proposition 42, approved by voters in March 2002, provides for annual transfers of sales and use taxes on gasoline from the General Fund to the TCRP in order to fund state and local transportation projects. The Proposition 42 transfer was partially suspended in 2003-04.
- Proposes to repeal SB 1856, which places a \$9.95 billion general obligation bond for high-speed rail on the November 2004 ballot, arguing that the state should not take on additional debt at this time.
- Proposes to repeal the statutory designation of TCRP projects, arguing that these projects should compete for funds under the State Transportation Improvement Plan (STIP).

STATE EMPLOYEE COMPENSATION

The Governor proposes to reduce retirement benefits to employees hired by the state in the future by shifting the Public Employees' Retirement System (CalPERS) to pre-1999 retirement formulas. The Administration estimates that this shift will provide \$4.8 billion in General Fund savings by the year 2023-24. It is somewhat unclear how significant savings will be achieved in immediate years, since the state is currently under a hiring freeze. It appears, however, that public safety employees, who enjoy more generous retirement benefits than other state employees, are included in this proposal, and that would provide significant savings. In order to fund current CalPERS obligations until the shift is implemented, the Governor proposes pension obligation bonds of nearly \$1 billion. Debt service payments on these bonds would be

at least partially covered through increased contributions by all state employees; in most cases, from 5 percent to 6 percent. It is unclear whether the Administration will be able to proceed with this piece of the plan, given that a pension obligation bond proposal included in the 2003-04 Budget was initially rejected at the trial court level and is currently under appeal. Moreover, the Budget does not specify whether any of these actions can be taken outside of the collective bargaining process.

The Budget proposes to increase the state contribution to the State Teachers' Retirement System (STRS) by \$526 million pursuant to an increase in teacher payroll (\$26 million) and to make up for a one-time 2003-04 reduction (\$500 million).

STATE OPERATIONS

The Budget:

- Proposes a California Performance Review to "transform state government and energize the bureaucracy." This review will include reorganizing the executive branch, implementing a performance evaluation system across all programs, proposing a constitutional amendment to allow contracting out of state services, and reforming state purchasing procedures. The Governor proposes to form a commission including legislators, business representatives, local government representatives, and other Constitutional officers.
- Assumes \$50 million in one-time General Fund savings pursuant to a December 5, 2003, Executive Order instructing all departments to disencumber "non-essential" contracts and purchase agreements.
- Announces that the Department of Finance will investigate potential fraud, waste, and abuse in state government by May 1, 2004; at that time, the Governor will announce proposals to achieve savings based on the investigation's findings.

LOCAL GOVERNMENT

The Governor:

- Proposes to shift approximately \$1.3 billion in property tax revenues from local governments to the Educational Revenue Augmentation Fund (ERAF) in order to decrease the state's General Fund obligation under Proposition 98. The budget proposal implies that this is comparable to the 2003-04 reduction of \$1.3 billion in the VLF backfill. However, while the VLF backfill is evenly split between cities and counties, the ERAF reductions of the early 1990s hit counties harder than cities, and affected special districts as well. The Budget is silent on how the proposed 2004-05 ERAF shift would be distributed among local governments. According to the California State Association of Counties (CSAC), the 2004-05 ERAF shift would be distributed as follows: 68 percent to counties, 14 percent to cities, 7 percent to special districts, and 10 percent to redevelopment agencies.
- Proposes to eliminate "booking fees," state payments to counties as reimbursement for fees paid to counties for booking inmates into county jails, for a savings of \$38 million. In addition, the Budget expresses support for AB 1749, a budget trailer bill that was not

passed last year, which would eliminate counties' ability to charge booking fees. The Governor does not propose significant reductions to the Citizens' Options for Public Safety (COPS) and Juvenile Justice Prevention Programs.

- Redirect \$2.6 million in General Fund revenues from other flood control projects in 2004-05 for sediment removal at the Fremont Weir upstream from Sacramento. As part of the 2003-04 Mid-Year Revision, the Administration proposed reverting \$105 million in funding for local flood control programs back to the General Fund.

TECHNOLOGY, TRADE, AND COMMERCE AGENCY

The Proposed Budget:

- Assumes \$6.6 million in General Fund savings in the current year by capturing remaining funds in Technology, Trade, and Commerce Agency (TTCA) programs that were abolished as of January 1, 2004, as part of the 2003-04 Budget agreement.

PUBLIC SAFETY

The Governor's Proposed Budget:

- Allocates \$5.7 billion in General Fund dollars to the Youth and Adult Correctional Agency (YACA), an 8 percent increase compared to 2003-04 spending levels.
- Eliminates the Office of the Inspector General and returns its duties to the Secretary for the YACA for General Fund savings of \$2.8 million and a subsequent increase of \$630,000 in the YACA.
- Decreases the total budget of the Department of Corrections (DOC) by 7.8 percent compared to estimated 2003-04 spending levels. Most of the savings are attributable to a \$400 million unallocated reduction that will be identified at a later date. It is unclear whether the final cuts will be entirely within the budget of the DOC. Potential changes include stricter fiscal accountability procedures, contracting out health care and other unspecified services, renegotiating labor contracts, and reforming parole policies. By reforming parole policies and decreasing recidivism, the Administration hopes to close some prison and youth authority facilities in the future.
- Changes the primary funding base for the Board of Corrections from the General Fund to fees collected from local governments for General Fund savings of \$1.7 million.
- Transfers the administration of the Juvenile Justice Grant Programs from the Office of Criminal Justice Planning to the Board of Corrections due to the elimination of the Office of Criminal Justice Planning on January 1, 2004.
- Plans to change the Department of the Youth Authority's jurisdiction for wards and parolees from 22 to 25 years of age. This would allow the Youth Authority to transfer juveniles who do not meet specified treatment goals to state prison if they must be retained past the age of 22.
- Recommends the closure of the Fred C. Nelles Youth Correctional Facility and a youth correction camp because of a continuing decline in the ward population.
- Includes a \$3 million unallocated reduction in General Fund dollars in the Department of Justice.
- Does not include funding for projected employee compensation cost increases of \$30

million in 2003-04 for the California Highway Patrol.

RESOURCES

The Governor proposes to:

- Increase state park fee revenues by \$18 million. The increase in revenues would be divided among the General Fund (\$15 million), deferred maintenance (\$2 million), and park operations (\$1 million).
 - Reduce General Fund support for the California Conservation Corps by \$12.8 million in 2004-05, resulting in a 14 percent reduction in the number of corpsmembers and the elimination of corpsmember health benefits.
 - Redirect \$2.6 million of General Fund spending from other flood control projects in 2004-05 to sediment removal at the Fremont Weir, upstream from Sacramento. As part of his proposed mid-year spending reductions, the Governor proposed reverting \$105 million in local flood control programs back to the General Fund.
 - Work with the Legislature to allow the Department of Forestry and Fire Protection to more easily collect fees for fire suppression activities and timber harvest plan (THP) reviews. The 2003-04 Budget assumed that legislation generating \$10 million in fees for THP review would be enacted. However, no such legislation was passed. The 2004-05 Budget also assumes that the Legislature will authorize \$10 million in THP review fees.
 - Allocate \$16.1 million from the General Fund for lining the All American Canal pursuant to the implementation of the Colorado River Quantification Settlement Agreement.
- Delay the appropriation of bond funds, including funds from water and park bonds, until spring 2004 while the Administration evaluates “various alternatives to reorganize and streamline existing resource conservation efforts.”

ENVIRONMENTAL PROTECTION

The Proposed Budget:

- Reduces General Fund support for water quality programs by \$10 million. Of this amount, \$5.1 million will be shifted to fees and special funds.
- Does not renew \$29.6 million in one-time funding under the Air Resources Board for the Zero Emission Vehicle Grant Program and the Carl Moyer Diesel Grant Program in 2004-05.
- Reflects an ongoing \$7.6 million reduction to the Air Resources Board’s budget. This reduction was originally made in November using the executive authority granted to the Governor in the 2003-04 Budget.